

Message Text

CONFIDENTIAL

PAGE 01 ABU DH 01796 060724Z

20

ACTION NEA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 FEA-01 PA-01 PRS-01 /092 W

----- 125539

R 060535Z SEP 75

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 3296

INFO AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

C O N F I D E N T I A L ABU DHABI 1796

E.O. 11652: GDS

TAGS : ENRG, TC

SUBJECT : MAJORS FACE PRODUCTION/LIFTING SQUEEZE IN ABU DHABI

SUMMARY: RELATIONS BETWEEN ABU DHABI'S TWO MAJOR OIL COMPANIES (ABU DHABI PETROLEUM COMPANY, ADPC, AND ABU DHABI MARINE AREAS, ADMA) AND GOVERNMENT (ADG), WHICH HAVE HAD THEIR UPS AND DOWNS THIS YEAR, HAVE TAKEN A NEW TWIST IN RECENT WEEKS. ADG HAS IMPOSED FIXED PRODUCTION CEILINGS FORCING CUT BACKS FROM JUNE-JULY LEVELS. MOREOVER, IN CASE ADMA VOLUMES AVAILABLE TO PARTICIPATING COMPANIES HAS BEEN FURTHER REDUCED BY DECISION OF NATIONAL OIL COMPANY (ADNOC) TO LIFT IN SEPTEMBER MORE THAN ITS 20 PERCENT SHARE. DESPITE THESE DEVELOPMENTS COMPANY-GOVERNMENT RELATIONS ARE OBVIOUSLY STILL MUCH IMPROVED OVER SITUATION EXISTING EARLY IN YEAR. BUT IF ANYONE HAD ILLUSIONS THAT THIS RELATIONSHIP MIGHT BECOME TRULY STABLE, THEY HAVE THEM NO LONGER. END SUMMARY.

1. LATEST DEVELOPMENTS ON ABU DHABI OIL SCENE HAVE TO BE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ABU DH 01796 060724Z

VIEWED AGAINST BACKGROUND OF RISING PRODUCTION IN BOTH JUNE

AND JULY WHICH, AS REPORTED PIW AUG. 25, RESULTED IN TOTAL OF OVER 1.8 MILLION BPD IN LATTER MONTH. IN CASE ADPC JULY PRODUCTION AVERAGED 1,266,000 BPD. MOREOVER ADPC PARTICIPATING COMPANIES LIFTED NOT ONLY THEIR SHARE BUT ALL BUT SOME 70,000 BPD OF ADNOC'S 20-PERCENT SHARE AS WELL. IN ADMA'S CASE JULY PRODUCTION WAS REPORTEDLY ROUGHLY SAME AS 542,000 BPD AVERAGED IN JUNE. WHILE ADNOC'S LIFTINGS FROM ADMA WERE SOMEWHAT HIGHER THAN IN CASE ADPC, ADMA PARTICIPANTS LIKewise MORE THAN WILLING TAKE ALL CRUDE THEY COULD GET. CONTINUATION OF THIS JUNE-JULY PATTERN WOULD HAVE MEANT THAT BY END OF YEAR ALL, OR NEARLY ALL, OF PRODUCTION SHORTFALL FROM FIRST QUARTER WOULD HAVE BEEN MADE UP--I.E. OPERATORS WOULD PROBABLY HAVE SATISFIED WHAT THEY UNDERSTOOD TO BE ADG GOAL THAT YEAR'S PRODUCTION AVERAGE OUT AT ONE MILLION AND 500,000 BPD FOR ADPC AND ADMA RESPECTIVELY.

2. THIS WAS NOT BE, HOWEVER. IN SECOND WEEK OF AUGUST BOTH COMPANIES RECEIVED LETTER FROM ADNOC CHAIRMAN, SHAIKH TAHNOUN, TELLING THEM THAT THEY EXCEEDING ACCEPTABLE PRODUCTION LEVELS. ADPC TOLD NOT TO GO ABOVE ONE MILLION BPD WHILE ADMA CEILING SET AT 450,000 BPD. IN SHORT, EARLIER MARCH CEILINGS (ABU DHABI 609), WHICH OPERATORS HAD UNDERSTOOD TO BE YEARLY AVERAGE TARGETS, SUDDENTLY BECAME ABSOLUTE MAXIMUMS FOR CURRENT OPERATIONS, WITH ADMA FOR SOME REASON SUFFERING ADDITIONAL 50,000 BPD CUT EVEN BELOW THAT LEVEL. COMPANIES HAVE OF COURSE COMPLIED, SCALING BACK PRODUCTION (E.G. ADPC PRODUCTION AUG. 25 WAS 925,000) SO THAT MONTHLY AVERAGE FOR AUGUST WAS EXPECTED TO HIT NEW CEILINGS ALMOST ON NOSE.

3. QUESTION IS WHY ADNOC TOOK THIS ACTION. NATURALLY THERE HAS BEEN SPECULATION THAT ACTION REFLECTION OF OIL POLITICS, PART OF AN EFFORT TO KEEP TOTAL OPEC PRODUCTION FROM GROWING TOO RAPIDLY AND MORE SPECIFICALLY TO PREVENT PARTICIPATING COMPANIES FROM STOCKING UP BEFORE POSSIBLE SEPTEMBER PRICE RISES. BUT ADNOC IN ITS LETTERS STATED IT WAS ACTING BECAUSE JUNE/JULY LEVELS, IF MAINTAINED, WOULD IN ITS VIEW DAMAGE CRUDE RESERVOIRS--AND ADPC OFFICIALS AT LEAST ACCEPT THIS STATED REASON AS BEING GENUINE. THEY (AS WELL AS ADMA) DENY VALIDITY OF ALLEGED THREAT AND EXPRESS FRUSTRATION AT THEIR INABILITY TO GET ADNOC TO DISCUSS SPECIFICS, BUT THEY NEVERTHELESS BELIEVE THAT ADNOC GENERAL MANAGER HAMRA KROUHA HAS FIXATION OF QUESTION OF RESERVOIR MAINTENANCE AND THAT CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ABU DH 01796 060724Z

HE HAS MANAGED TO SELL HIS CONCERN TO ADG. ADPC OFFICIALS SEE CONFIRMATION OF THIS ANALYSIS IN FACT THAT WHEN MINPET MANA OTAIBA LEARNED OF CEILINGS, DURING BRIEF VISIT TO ABU DHABI IN AUGUST, HE WAS BOTH SURPRISED AND DISPLEASED. ADMA OFFICIALS ARE BIT MORE SKEPTICAL ABOUT ADNOC MOTIVES, NOTING FOR EXAMPLE THAT WHILE OTAIBA MAY HAVE EXPRESSED DISPLEASURE HE HAS DONE NOTHING TO REVERSE DECISION. ADMA, HOWEVER, HAS HAD PREVIOUS EXPERIENCES WITH KROUHA ON RESERVOIR CONTROL AND BY NO MEANS

RULES OUT POSSIBILITY THAT DECISION TAKEN FOR PURELY TECHNICAL REASONS
AS STATED.

4. ADMA'S SKEPTICISM MAY BE TINGED A BIT WITH FACT THAT PRODUCTION CEILING IS NOT ONLY PROBLEM IT IS HAVING WITH ADNOC. CUT WAS BAD ENOUGH, PARTICULARLY IN THAT ADMA FEELS DISCRIMINATED AGAINST BY BEING BROUGHT BELOW MARCH LEVELS. BUT NOW ADNOC, AFTER CONSISTENTLY UNDERLIFTING, HAS SUDDENLY ANNOUNCED THAT IN SEPTEMBER IT WISHES TO LIFT MORE THAN 20 PERCENT OF PRODUCTION ALLOCATED TO IT UNDER EXISTING 40-40-20 ARRANGEMENT. EXACT AMOUNT IT WILL TAKE IS NOT YET CLEAR, BUT IT WILL LIFT NEARLY 100,000 BPD (OUT OF 250,000) OF ZAKUM CRUDE AND WHATEVER IT TAKES OF UMM SHAIF'S 200,000 BPD WILL BRING IT WELL OVER 20 PERCENT MARK OF CURRENT PRODUCTION. AGAIN, REASONS BEHIND THIS SUDDEN CHANGE ARE UNCLEAR. ANNOUNCED ADNOC CRUDE SALE TO GULF OIL IS PRESUMABLY PART OF ANSWER, BUT TO DATE ADMA HAS NOT BEEN TOLD WHERE CRUDE WILL GO--ONLY THAT IT IS WANTED. NATURALLY ADMA PARTICIPANTS ARE UNHAPPY, PARTICULARLY IN THAT EARLIER IN YEAR THEY WERE TOLD REPEATEDLY BY ADG THAT FLUCTUATIONS IN LIFTINGS WERE UNACCEPTABLE. MOREOVER ADMA AGAIN FEELS THAT IT HAS BEEN SINGLED OUT--IN ADPC'S CASE, WHILE ADNOC LIFTINGS HAVE RISEN TO ABOUT 100,000 BPD THEY ARE STILL WELL BELOW 20 PERCENT FIGURE.

5. COMMENT: WHAT THESE LATEST DEVELOPMENTS MEAN IN TERMS OF LONG-TERM COMPANY-GOVERNMENT RELATIONS REMAINS TO BE SEEN. CERTAINLY ALL AGREE THAT SITUATION NOW REMAINS FAR BETTER THAN IT WAS DURING FIRST TWO MONTHS OF YEAR. EVEN WITH NEW CEILINGS, COMPANIES ARE PRODUCING AT RATES COMPARABLE TO OR IN CASE ADPC HIGHER THAN THEIR AVERAGES IN 1974. MOREOVER, BOTH AGREE THAT SPIRIT OF COOPERATION EXISTS WITH GOVERNMENT. ADPC FOR EXAMPLE BEGAN DISCUSSIONS SEPT. 4 IN ABU DHABI WITH OTAIBA ON
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 ABU DH 01796 060724Z

QUESTION OF GAS UTILIZATION. THEY FEEL THAT TALKS EARLIER THIS SUMMER IN PARIS AND LONDON ON SAME SUBJECT WERE CONSTRUCTIVE AND THEY HOPEFUL THAT THIS LONG STANDING ISSUE MAY BE NEARING RESOLUTION. BUT AT SAME TIME RECENT DEVELOPMENTS--HAVING ONCE MORE HIGHLIGHTED THE UNCERTAINTIES INHERENT IN GOVERNMENT-COMPANY RELATIONSHIPS--CAN ONLY RAISE FURTHER DOUBTS IN MINDS OF PARTICIPATING COMPANIES AS TO THEIR LONG-TERM FUTURE HERE AND AS TO JUST HOW MUCH OF STAKE THEY PREPARED TO COMMIT TO THEIR ABU DHABI OPERATIONS.
PEALE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, PETROLEUM PRODUCTION, FINANCIAL STABILITY
Control Number: n/a
Copy: SINGLE
Draft Date: 06 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ABUDH01796
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750308-1013
From: ABU DHABI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750975/aaaacoqd.tel
Line Count: 164
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 27 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 MAY 2003 by BoyleJA>; APPROVED <28 MAY 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: : MAJORS FACE PRODUCTION/LIFTING SQUEEZE IN ABU DHABI SUMMARY: RELATIONS BETWEEN ABU DHABI'S TWO MAJOR OIL COMPANIES
TAGS: ENRG, TC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006